

NATIONAL PETROLEUM COUNCIL

- - - - -

MEETING

Wednesday,

July 27, 1994

The meeting was held in the Grand Ballroom of the ANA Hotel, 2401 M Street, N.W., Washington, D.C., at 8:30 a.m., Ray L. Hunt, Chairperson, presiding.

PRESENT:

RAY L. HUNT, Chairperson
HAZEL R. O'LEARY, Government Co-Chairperson, Secretary of Energy
H. LAURANCE FULLER, Vice Chairperson
ROBERT O. ANDERSON, Hondo Oil & Gas Company
COLLIS P. CHANDLER, Jr., Chairman, Nominating Committee
PATRICIA FRY GODLEY, Assistant Secretary for Fossil Energy
JOHN R. HALL, Chairman, Finance Committee
FRANK A. MCPHERSON, Chairman, Agenda Committee
C. JOHN MILLER, Committee on Marginal Wells
MARSHALL W. NICHOLLS, Executive Director
H. LEIGHTON STEWARD, Committee on the Oil Pollution Act
WILLIAM H. WHITE, Deputy Secretary of Energy

SAG, CORP4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

I-N-D-E-X

	<u>PAGE</u>
Call to Order and Introductory Remarks Chairperson Hunt	3
Consider and Approve the Proposed Report of the NPC Committee on the Oil Pollution Act Leighton Steward	4
Consider and Approve the Proposed Report of the NPC Committee on Marginal Wells C. John Miller	13
Remarks by the Honorable Hazel R. O'Leary Secretary of Energy	22
Administrative Matters	
Report of the NPC Co-chairs Coordinating Committee Chairperson Hunt	49
Report of the NPC Agenda Committee Frank McPherson	51
Report of the NPC Finance Committee John R. Hall	53
Report of the NPC Nominating Committee Collis P. Chandler, Jr.	55
Memorial Resolution in Honor of H.A. True, Jr.	58
Discussion of Any Other Business Properly Brought Before the National Petroleum Council	61
Adjournment	63

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

P-R-O-C-E-E-D-I-N-G-S

8:34 a.m.

CHAIRPERSON HUNT: Ladies and gentlemen, my name is Ray Hunt. I'm Chairman of the National Petroleum Council and I would like to welcome each of you to today's meeting. I think you will find it to be a particularly informative and interesting one.

I am prepared to read slowly and deliberately the membership role of the Council. Unless there's an uprising from the floor, I think we'll follow our normal practice and let the check-in outside the door constitute the record of attendance. If anyone has not checked in when you came into the room, please do so sometime before you leave today.

I would like to now introduce the head table. Will you hold your applause, please, until I've completed it?

On my far right and your left is Bill White, the Deputy Secretary of Energy. Why don't you stand as I call your name. Next to him is Larry Fuller, the Vice Chairman of the National Petroleum Council. Next to Larry and immediately to my right is Secretary O'Leary. On my far left is Marshall Nichols, Executive Director of the Council. Next to Marshall is John Miller, representing the NPC

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 Committee on Marginal Wells. Next to John is Pat
2 Godley, who has just been confirmed as the new
3 Assistant Secretary for Fossil Energy, and immediately
4 on my left is Leighton Steward, the Chairman of the
5 NPC Committee on the Oil Pollution Act.

6 Let's give them a round of applause.

7 As you see from the agenda in front of
8 you, we have a very full day today. So, we'll jump
9 right into the business of the group.

10 The first item of business would be the
11 report of one of two reports that we will receive this
12 morning. The first dealing with the Oil Pollution
13 Act. I'm very pleased to turn the podium over to
14 Leighton Steward, the Chairman of the NPC Study
15 Committee on this subject.

16 Leighton?

17 MR. STEWARD: Thank you, Mr. Chairman.

18 Madam Secretary, Honored Guests, NPC
19 members, on October the 8th of '93, Energy Secretary
20 O'Leary asked the NPC to assess from an energy
21 production perspective the implications of a proposal
22 by the Department of Interior's Mineral Management
23 Service to implement the financial responsibility
24 requirement of the Oil Pollution Act of 1990. An
25 interim report, completed in December 1993,

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 concentrated on the impacts of OPA '90 on the
2 petroleum industry.

3 While developing the interim report, it
4 became clear that a significant portion of the
5 industry would be unable to meet the financial
6 responsibility requirements if OPA '90 was interpreted
7 too strictly by the MMS. The interim report became an
8 important resource in the dialogue with the MMS and
9 the Subcommittee met with the representatives of the
10 MMS frequently to discuss their views on the various
11 problems. The Subcommittee also reviewed summaries of
12 more than 1,700 sets of comments received by the MMS.
13 The Committee is now pleased to present its final
14 report that concentrates on solutions to the problems
15 presented by the MMS advanced notice of proposed
16 rulemaking.

17 The final report contains solutions in the
18 following areas: jurisdiction; the \$150 million
19 financial responsibility level; the implementation of
20 a de minimis provision; the definition of a guarantor;
21 the criteria for self-insurance; and the interaction
22 of OPA's financial responsibility regulations with
23 state requirements.

24 With regard to the jurisdictional
25 question, MMS has proposed including many onshore

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 facilities within the definition of property which
2 have to be covered by certificates of financial
3 responsibility.

4 In OPA '90, the responsible party for an
5 offshore facility is defined as the lessee, permittee,
6 or holder of an easement. These terms apply solely to
7 the traditional offshore. They have no meaning when
8 they are applied to a terminal or a refinery or a
9 pipeline. It is very clear that even though there may
10 be pipelines, wharves, piers and other similar
11 structures that are associated with the U.S. navigable
12 water, if they are connected to an onshore facility,
13 they are part of that facility and are considered to
14 be an onshore facility. It is our recommendation that
15 MMS should clarify that OPA '90 financial
16 responsibility requirements only apply to facilities
17 in the territorial seas in the traditional Outer
18 Continental Shelf.

19 Another major issue is the requirement for
20 the absolute level of \$150 million of financial
21 responsibility and whether there should be a de
22 minimis rule and whether MMS has the flexibility to
23 adjust the level of financial responsibility. While
24 it is very apparent that the absolute requirement of
25 \$150 million is a show stopper for many operators, we

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 believe that MMS has the flexibility to adjust the
2 level of financial responsibility to be commensurate
3 with the risk.

4 We believe there is a clear indication in
5 the statute that Congress intended more than one
6 level. This is consistent with the current rules for
7 onshore facilities and vessels that have a very clear
8 provision for liability based on risk. A de minimis
9 provision follows the risk weighting intent. We
10 believe that if the worst case discharge is 250
11 million barrels or less, an operator should be exempt
12 from the financial responsibility requirement.

13 While we recognize that money needs to be
14 immediately available to clean up a spill, any
15 operator with an offshore facility has the financial
16 wherewithal to clean up and pay for damages from a
17 small spill. If your worst case discharge is between
18 250 and 1,000 barrels, one could fall into the de
19 minimis provision if you have certain mitigating
20 factors such as operating production that is on
21 artificial lift or if you're located in a remote area.
22 Also, we believe an operator who has a worst case
23 discharge of 1,000 barrels or less of natural gas
24 condensate should be exempt. Of course, natural gas
25 should be exempt because it does not pose a threat to

SAG, CORP

4218 LENORE LANE, N.W.

WASHINGTON, D.C. 20008

1 the offshore environment.

2 Now, there has been one suggestion for
3 improvement by John Lichtblau which you have in front
4 of you that has been recently approved by the
5 Subcommittee and its inclusion in the report is
6 intended to strengthen the de minimis provision. We
7 have proposed that MMS make a facility by facility
8 calculation to set the level of financial
9 responsibility commensurate with the risk.

10 The calculation should take into account
11 the volume, the location, whether it would have an
12 impact on commercial fishing grounds or other such
13 mitigating factors. We have recommended that MMS set
14 levels of financial responsibility at \$35, \$50, \$75
15 million up to \$150 million, whatever the apparent
16 level should be.

17 Thirdly, insurance companies have refused
18 to become a guarantor which would make them subject to
19 direct action by various injured parties. Because of
20 this, insurance companies are unwilling to make
21 insurance available. Since Congress specifically
22 delineated the defenses that could be asserted by a
23 guarantor, but left the ability to define the defenses
24 for other parties providing evidence of financial
25 responsibility to the Executive Branch, we believe MMS

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 has the authority to distinguish between indemnitors
2 and guarantors so that an insurance company is not
3 necessarily a guarantor. We have recommended that MMS
4 make this distinction so that insurance will be
5 available for the companies that cannot self-insure.

6 If the operator of an offshore facility
7 cannot get insurance and has to provide up to \$150
8 million of financial responsibility, the only way he
9 can meet the requirement is to self-insure. Most of
10 the offshore operators cannot currently self-insure at
11 the \$150 million level. So, the Committee has
12 developed new formulas that will make it easier to
13 self-insure. Previously, self-insurance tests have
14 been based on financial statements that include assets
15 at their original cost and may not accurately reflect
16 the true financial resources that a company has
17 available.

18 For instance, oil and gas producers have
19 valuable assets in the ground and that's in the form
20 of their crude reserves. These may not be properly
21 valued on their financial statements.

22 Also, insurance that the industry has
23 relied on for years should be counted as an asset.
24 While insurance companies will not offer insurance as
25 a guarantor, they are perfectly willing to make

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 insurance available to cover the cost of cleaning up
2 a spill. This is a resource the operator has and
3 should be able to count on toward meeting his
4 financial responsibility requirements.

5 Next we think it's very important that MMS
6 coordinate their program with the states. If a state
7 has its own financial responsibility requirements and
8 an operator has met them, that should count toward the
9 MMS financial responsibility requirements. Previously
10 MMS has been involved solely with the Outer
11 Continental Shelf. We suggest the states which
12 already have these facilities and their programs for
13 response planning and other purposes be allowed to
14 administer the financial responsibility portion of OPA
15 on behalf of MMS.

16 Another major concern of the Committee is
17 the Natural Resources Damage Assessment, or NRDA.
18 That's a provision of OPA '90. NRDA is considered a
19 major problem because the judgments that could be
20 rendered under it would be unpredictable, could be
21 extremely large and could actually stand to bankrupt
22 a company on the basis of whimsical public sentiment.
23 It has been proposed in the advanced notice that non-
24 use values be measured by a process called contingent
25 value methodology, or CVM.

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 Under the CVM methodology, a poll would be
2 taken asking the public in dollar terms how much value
3 they put on the very existence of, the option to use
4 and the bequest value of a natural resource whether or
5 not the public had ever or would ever use it. This
6 would then be scaled up to the effective population of
7 the entire United States and then that damage value
8 would be assessed against the spiller.

9 The Committee agrees that there can be
10 non-use values, but it definitely concludes that the
11 contingent value methodology is too unreliable to be
12 used in quantifying the damage.

13 The Committee hopes this report will be
14 helpful to the process and urges MMS to use their
15 authority to make rules which achieve OPA's important
16 environmental goals without imposing unreasonable
17 economic burdens on our society and forcing these
18 issues to be settled by lengthy and costly
19 legislation.

20 I'd like to express my personal thanks to
21 Robert Armstrong of LL&E and Len Colburn of the
22 Department of Energy who were co-chairs of the
23 Subcommittee who put this report together and also to
24 all the individual members of the Subcommittee.

25 Mr. Chairman, I move the report be

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 approved with the addition previously mentioned and,
2 of course, subject to minor editing changes. Thank
3 you.

4 CHAIRPERSON HUNT: Thank you, Leighton.

5 The motion has been made that this report
6 be approved. Is there a second? Second. Is there
7 any discussion?

8 All in favor, signify by saying aye.

9 (Ayes.)

10 CHAIRPERSON HUNT: Opposed?

11 (No response.)

12 CHAIRPERSON HUNT: Motion carries.

13 Leighton, I again would like to commend
14 you and your entire Committee for the outstanding job
15 you all have done on this very important report.

16 Madam Secretary, I hope the report will be
17 of benefit to you in the Department and we are very
18 pleased to have performed it for you.

19 The next item of business is to receive
20 the report on the Committee on Marginal Wells. Vic
21 Beghini, the Chairman of the Study Committee, was
22 unable to be with us today due to a prior conflict.
23 The Committee's report will be presented by John
24 Miller, who has spent a very considerable amount of
25 his personal time and energy on this report.

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 John?

2 MR. MILLER: Thank you, Ray.

3 This is the report of the Marginal Wells
4 Committee to the National Petroleum Council. I'm
5 pleased to present our Committee's report for the
6 Council's approval.

7 As was stated, Vic Beghini, the Chairman
8 of the NPC Committee on Marginal Wells, regrets that
9 he is unable to be with us this morning, but he had a
10 prior commitment out of the country. I didn't know
11 that was an acceptable excuse or I might have opted
12 for it myself.

13 Before reviewing the study's primary
14 findings, conclusions and recommendations, I would
15 like to briefly note four important underlying issues
16 and principles relating to this effort. I would ask
17 for your considered attention to this first bullet on
18 this as I think it's extremely important that we
19 understand the scope of the study.

20 First and most importantly, per the
21 Secretary's request, the focus of this study was
22 limited solely to proposals for maintaining production
23 and access to potential reserves from marginal wells.
24 It is not a study concerning how to jumpstart the
25 entire oil and gas industry. Adoption of such

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 proposals are an important initial step in restoring
2 the economic well being of our industry and nation.
3 However, Government should be aware that marginal well
4 incentives alone will not provide long-term solutions
5 in that they do not encourage new activity which is
6 the life blood of this industry. Other important
7 steps are encouraging new exploration, deep water
8 development, access to resources, cost relief from
9 unnecessary regulatory compliance and enhanced
10 recovery from all properties.

11 Second, this study has been conducted in
12 an extremely short time frame. Our Committee held its
13 organizational meeting in early April. The scope of
14 the studies analyses was influenced by the shared goal
15 of an early completion date. For instance, the short
16 time frame prevented rigorous analysis of marginal gas
17 wells, the offshore or Alaska. Therefore the study's
18 detailed cost benefit analyses focus on existing
19 onshore lower 48 marginal oil wells.

20 On behalf of the Committee, I apologize
21 for the short review times the tight study schedule
22 has necessitated. In fact, the study subcommittee met
23 yesterday and based on comments received on the July
24 21st mailing to the Council produced a revised
25 executive summary which is on the table in front of

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 you.

2 In addition, the Subcommittee reviewed the
3 economic analyses that were contained in the July 21
4 mailing and final economic model runs documenting the
5 analyses are being completed.

6 The third issue is the definition of
7 marginal wells used in the report. A well could be
8 classified as marginal whenever estimated future
9 revenues from the well are equal to or less than
10 future anticipated operating cost, environmental cost,
11 litigation cost, federal and state tax liabilities,
12 lease maintenance, recovery of capital expenditures
13 and plugging and abandonment liability. Using this
14 concept, a number of wells not normally considered
15 marginal would be characterized as such. This
16 subjective definition is difficult to utilize in
17 practice, particularly for federal and state income
18 tax purposes, but does provide a sound basis for
19 understanding the true nature of a marginal well.

20 Therefore, the definition of marginal
21 property in this report is the same as the definition
22 in the current Internal Revenue code modified to
23 include high water cut properties and to include
24 injector wells for purposes of computing average daily
25 production.

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 The following properties are marginal
2 properties under the expanded definition: properties
3 that have an average daily production of 15 barrels
4 equivalence or less per well; properties that have an
5 average daily production of 25 barrel equivalents or
6 less per well with produced water accounting for 95
7 percent or more of total production; properties that
8 produce heavy oil with an API gravity less than 20
9 degrees. While wells with larger amounts of
10 production may be categorized as marginal because of
11 their particular economic and physical
12 characteristics, it is not practical to provide a
13 legislative and administrative definition broad enough
14 to cover every possible marginal property situation.

15 The last underlying principle is that
16 marginal wells exist throughout the domestic oil and
17 gas industry in all companies. Accordingly, the
18 Committee recommends only incentives that would be
19 available to all owners of marginal properties without
20 regard to the size of the owner and/or the geographic
21 location of the property.

22 With these principles in mind, I now would
23 like to review the report's executive summary in
24 detail due to its importance and that it contains the
25 Subcommittee's proposed revisions.

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 Why are marginal wells important?
2 Marginal wells are important contributors to the
3 nation's energy supply and economic well being. These
4 wells help provide access to a resource base of 350
5 billion barrels of oil which is a target for recovery
6 under an improved economic environment and enhanced
7 oil recovery technology. Many domestic oil and gas
8 businesses, both large and small, rely on these
9 marginal wells as the backbone of their operations.

10 These operations comprised of many
11 producing leases should be viewed as a small business
12 struggling to survive in a global marketplace.
13 However, as global market factors caused commodity
14 prices to fluctuate, the economic viability of these
15 wells is precarious. As a result, the backbone of
16 these many businesses can collapse as decreasing oil
17 prices destroy the contribution of marginal oil wells.

18 There is a growing recognition of the
19 importance of marginal wells. Some producing states
20 have enacted measures to preserve marginal well
21 contributions to their economies. In December of
22 1993, the Secretary of Energy requested that the
23 National Petroleum Council conduct this study on
24 marginal wells. In February of 1994, a broad industry
25 and bipartisan congressional coalition developed

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 proposals aimed at preserving marginal wells.
2 President Clinton, in a letter to Senator Boren or
3 July 5th, 1994 recognized the need to identify
4 policies that can extend the margin of economic
5 production which could include provisions to extend
6 the economic life of stripper wells onshore.

7 What is at risk? Marginal wells are by
8 definition endangered. As domestic oil production
9 declines, oil and gas industry jobs are lost and the
10 trade deficit increases as more crude oil is imported.
11 There are hundreds of thousands of marginal wells,
12 each of which is a tiny economic engine providing
13 jobs, energy security and state and federal tax and
14 royalty revenues. It is important to recognize that
15 marginal wells almost always run out of money before
16 they run out of oil and gas.

17 The danger in losing these wells is
18 embodied in their collective loss. This would cause
19 the country to lose the opportunity to take advantage
20 of new technology and improved prices which are
21 crucial in recovering a portion of the 350 billion
22 barrels of resource.

23 What must be done to preserve marginal
24 well contribution? Preserving marginal wells is
25 central to our energy security. Neither government

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 nor the industry can set the global market price of
2 crude oil. Therefore, the nation's internal cost
3 structure must be relied upon for preserving marginal
4 well contributions. This report recommends four
5 federal income tax incentives as well as regulatory
6 and administrative actions to help preserve the
7 contribution of marginal wells to the domestic
8 economy.

9 In order for these incentives to be fully
10 effective, all of the recommended tax credits and
11 deductions must be applicable to both regular and
12 alternative minimum tax liability. Additionally, the
13 marginal well credits should be transferrable.

14 As outlined on the slide, the Committee
15 recommends the following incentives: a marginal well
16 credit to allow a tax credit for a specified amount of
17 daily production from marginal wells. This credit is
18 intended to be a safety net. It would be phased in as
19 the average domestic well head crude oil price falls
20 below a specified level. An improved, enhanced oil
21 recovery credit to expand the current 15 percent tax
22 credit for certain projects on marginal properties; an
23 inactive well incentive to provide a 15 percent tax
24 credit for qualifying expenditures incurred in
25 reactivating wells that had been inactive for two or

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 more years. Immediate expensing of all capital
2 expenditures to encourage investment in needed
3 equipment on marginal properties. Regulatory royalty
4 and cost relief to help preserve the contribution of
5 marginal wells by reducing the impact of increasing
6 cost.

7 Implementation of the above
8 recommendations is an investment in the domestic oil
9 and gas industry, yielding specific economic and
10 social benefits. The various recommendations, when
11 taken in aggregate, provide these benefits in a cost
12 effective manner. Since the economic benefit of these
13 proposals will accrue to the nation, the cost should
14 be borne by society at large.

15 In closing, the Committee wishes to thank
16 the participants in this study for their commitment
17 and almost non-stop efforts in getting this project
18 done. I also wish to express our appreciation to the
19 Department of Energy, particularly EIA, Fossil Energy
20 and the Policy Office, for their considerable support
21 of the study.

22 Mr. Chairman, this completes my
23 presentation. I believe that this report is
24 responsive to the Secretary's request and should be of
25 significant value to the Administration and Congress

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 in agreeing on the appropriate steps that need to be
2 taken. Accordingly, I move that the National
3 Petroleum Council adopt the proposed report subject to
4 final editing.

5 CHAIRPERSON HUNT: Thank you, John.

6 The motion has been made that the NPC
7 approve the report subject to final editing. Is there
8 a second? Second. Any discussion?

9 All in favor, signify by saying aye.

10 (Ayes.)

11 CHAIRPERSON HUNT: Opposed?

12 (No response.)

13 CHAIRPERSON HUNT: Motion carries.

14 I'd like to repeat one thing that John
15 said that is very, very important. This study relates
16 solely to marginal wells. It does not relate to the
17 entire industry and the recommendations that are
18 important to marginal wells, would not serve as a
19 panacea to the problems and the issues relating to the
20 industry at large.

21 Secondly, over the last several years, we
22 have put particular emphasis on the ability of the NPC
23 to respond in a very rapid and timely manner whenever
24 an issue arose that the Secretary and the Department
25 of Energy wished the NPC to become involved with. I

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 think this study demonstrates beautifully how quickly
2 the NPC can respond.

3 Madam Secretary, I hope that this study is
4 of benefit to you and again would like to commend all
5 of you who worked so diligently on this report.

6 At this point, the next item on the agenda
7 is remarks and comments from Secretary O'Leary.

8 Madam Secretary?

9 CO-CHAIRPERSON O'LEARY: Thank you, Ray.

10 First of all, I'd like to say a hearty
11 good morning to each of you and begin by recognizing
12 the hard work done by the two committees to do a fast
13 turn-around on the studies that we all deemed so
14 necessary. And I want to use that as an opportunity
15 also to recognize Ray, who has had an excellent
16 experience, I hope he would say to the group --

17 CHAIRPERSON HUNT: Definitely.

18 CO-CHAIRPERSON O'LEARY: -- in providing
19 leadership and dealing with the Secretary of Energy
20 that he wished he had more often available to him. I
21 want to apologize for that, but I also want to point
22 out to you that we have at our disposal in the
23 Department of Energy an excellent group of
24 professionals and political appointees who have served
25 you well and I want to use this as an occasion to

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 recognize Bill White and certainly Reggie Spiller,
2 Marvin and the crew, and celebrate with you the final
3 two political appointees just confirmed last Friday
4 night, Patricia Godley, who certainly will serve us
5 well and has from a closet while attempting valiantly
6 not to manage anything while affecting much, so I hope
7 that you will delight with me in celebrating this
8 wonderful staff.

9 I want to come down for a moment and then
10 I'm going to come back up to the podium because I have
11 some prepared remarks if I do not utter my staff will
12 be very annoyed.

13 You want to wire me up there? Bear with
14 me. I thought I was on. Yes, thank you.

15 I want to provide some insight to those of
16 you who don't often deal with the Department of Energy
17 to focus on our relatively broad mandate. I apologize
18 for using this very small visual aid, but it did not
19 occur to me until last night that this might be an
20 excellent starting off point. If I had thought about
21 it yesterday afternoon, we'd have had an overhead or
22 something.

23 This product, these five-ringed circles,
24 are our attempt in the Department of Energy over
25 almost a year to try to get some consensus within the

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 Department as to what the heck we do. What are our
2 missions in a very dramatically changed world?

3 Many people don't focus on the fact that
4 the Department of Energy, created under Jimmy Carter
5 with some fine leaders that we all know, could have
6 been called many other things. It could have been
7 called the Department of Science and Technology for at
8 its very core and center are really the national
9 laboratories, the three weapons productions facilities
10 and the others which represent, now hear me, an \$8
11 billion budget item to the Department in this fiscal
12 year, and that includes all of the work done in
13 nonproliferation and weapons dismantlement as well as
14 the work done with industries that we are interested
15 in here, oil and gas, specifically in areas of
16 creating more efficient production capabilities. I
17 point that out to you because it's a huge resource and
18 it also touches upon the study that we're asking that
19 you undertake next.

20 I want now to move very quickly to our
21 national security area. As has often been explained
22 by a great friend of mine, Lewellyn King, who does the
23 Energy Daily, when I came into this job this Secretary
24 was the armaments queen of the nation. Now, if you're
25 in the oil and gas business, you don't think about

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 that a lot, but, in point of fact, our major customer
2 for that part of our business line has always been the
3 Department of Defense and the National Security
4 Council to a great degree. And I point that out to
5 you because we are now struggling with the issue of
6 what should be the mission of these laboratories who
7 now do their work, their principle work, on the
8 nonproliferation side while at the same time
9 maintaining the capability to build and first of all
10 design new nuclear weapons and to keep them safe and
11 secure.

12 Why should you care? You should care
13 because much of the technology involved in now
14 developing a proxy for the bomb as opposed to testing
15 a bomb itself as we reach toward an extension of the
16 nonproliferation treaty involves science and
17 technology which again can be a very helpful piece to
18 the constituency in this room.

19 Finally, in case you thought I had
20 forgotten about it, I want to touch upon what we're
21 now calling our energy resources pod. This is the
22 traditional area in which I have worked in the three
23 times I've been in the Department of Energy and its
24 predecessor agencies which the public seems to know
25 very little about unless there's a crisis, and I test

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 this often when I talk to groups of people who have no
2 involvement in any of the work we do. I ask them what
3 do they think the Department of Energy is all about
4 and they think maybe it has something to do with the
5 electric utilities, maybe it has something to do with
6 nuclear power, but they never quite get it unless
7 there's a crisis. I point this out to you for two
8 reasons.

9 The time spent working in this pod, if it
10 were reflected by a budget impact, which is the way
11 Washington often measures importance of agencies,
12 would be very small, but its impact in terms of the
13 broad mission and what it touches in the gross
14 national product is large. But the interest level
15 there, as we all know in the room, is relatively low.
16 What have we done in the past 19 months to try and
17 change that?

18 Well, first of all, we're starting to
19 focus on things that don't necessarily talk about
20 energy resource. Let's try sustainable development.
21 Does that drive you nuts? Does that drive you nuts?
22 Does that make you nervous? Talk to me. Must, you're
23 so quiet. It does? Let me talk about this for a
24 minute.

25 What we've been trying for the last six

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 months is to talk about sustainable development and to
2 describe it in very pragmatic terms. I talk about
3 economic growth. The top of that line there, if you
4 could see it, has to do with global competition, our
5 industrial competition. And I talk about also
6 environmental quality. And then we talk about equity,
7 sort of ensuring that everybody gets a piece of the
8 pie. Not a bad idea. It steps away from the clash of
9 those who think that environmental protection is on
10 this side and economic development or jobs ought to be
11 on the other side and there's no room for joining.
12 It's an interesting way to talk about the work that
13 gets done in that pod. Just try it on for the rest of
14 the day and tell me if it rests easy on you.

15 The other pod is environmental quality,
16 and in the old days that used to be called the
17 environmental restoration area. It's the work that
18 Tom Grumley does. You need to know about that for two
19 reasons. It is the largest piece of our budget, last
20 year out-stripping the defense or national security
21 budget, and very much attracts the attention of people
22 living in the 50 sites that represented the weapons
23 production work of the Department of Energy. That's
24 what engages the Department. That's what engages me
25 pretty much.

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 The way we've tried to focus what we do is
2 to say that none of this matters unless the final
3 outcome, for which there is no organizational
4 component save a very little one, really drives jobs
5 in the Unites States of America. And we have to start
6 to think about in the Department what do we do to
7 create high quality, high value jobs while taking care
8 of all of the other missions. You ought to like this
9 way we're thinking because what it does is it brings
10 us back to the loop, puts us here and makes it clear
11 to us, as it has been clear to you from the very
12 beginning, that if there's nothing to power the
13 economy it does not happen.

14 That's sort of the overview of the way
15 we're thinking. And that, Ray, is why you don't see
16 me as often as you'd like.

17 I want to step into another area and I
18 recognize that this is dangerous for me, because I've
19 tried it before. I'm going to try it in another way
20 today.

21 About six months ago, I was slated to
22 speak to an annual meeting of the semi-conductor
23 industry. And as often is the case, our staff asked
24 the question, "What would you like the Secretary to
25 say?" Well, the standard, better than sliced bread,

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 very important to the U.S. economy, can't do without
2 us, and some wag put a line in a couple, about a page
3 of bullet points of themes that I might consider
4 discussing. I ought to say that the semi-conductor
5 industry is the oil and gas industry of the 21st
6 century. Well, I didn't say it, but understand the
7 challenge was there. That's the way that industry is
8 thinking about itself.

9 I'll come up here and get on my notes so
10 I don't make my folks too nervous anymore.

11 The point I'm making to you is that, as we
12 go forward at a time when these four circles could be
13 in competition as we try to put them together and make
14 the four circles support each other, there are other
15 industries who would contend that you in this room,
16 who've really forged the foundation for economic
17 development and opportunity in the United States,
18 don't have a place in the 21st century. Now, if I
19 were in my office, I would use those horrible words
20 that I'm not allowed to use in public because I
21 wouldn't like to be accused of bad language, but you
22 understand my point. That's BS is what it is.

23 But what we need to do as a group, if we
24 can, is recognize that the 21st century has some
25 challenges, the obvious challenges that have been

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 spoken to with respect to the fast study on marginal
2 wells and the need to address the whole industry.

3 I want to make a couple other points to
4 get you thinking, and I know you often do, but I want
5 you to think sort of in the way that we think, if you
6 can stand it for a day. I think that we have made --
7 I believe that we have made significant progress this
8 year in raising the issues on this side of the five-
9 ringed circle. Let me tell you why.

10 I read with a great deal of interest and
11 heard for two months before it happened about the
12 formation in the Congress of an oil and gas caucus.
13 Sounds to me like a great idea, an idea whose time has
14 come and I believe grew out of the letter written to
15 the President, cc'ed to everybody in the
16 Administration who had anything to do with natural
17 resources or sustainable development, saying "do
18 something for this industry."

19 Last month with the President and about 70
20 members of the Congress, focusing on the initiatives
21 and the recommendations that have come out of this
22 group as a body, and in some instances an individual,
23 in my mind was a significant breakthrough, maybe not
24 in your mind, but let me tell you where we are. This
25 is the first President I know of in 12 years who's met

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 with people who represent the industry. Am I right or
2 wrong about that? Truth or not? Talk to me. Yes?
3 Did anybody else do that? Does anybody here know?
4 Did anybody else? Was there a meeting in the Bush
5 Administration? No? Okay, you get my point.

6 Now, so we're saying -- so the honor of
7 the thing was a meeting. What happened after that?
8 Is that what you want me to talk about? Let me try
9 this.

10 First of all, even before the meeting
11 there was commitment on the part of our
12 Administration, thanks to some heavy lifting by Bill
13 White and a little by others of us, to sign on for
14 Bennett Johnson's bill, S-318 for royalty relief. Not
15 much, you think? Significant piece to get an
16 administration, any administration in the last three
17 years, to sign on to a piece of legislation that would
18 provide some equity in terms of relief to this
19 industry.

20 Let me now talk about Alaska North Shore.
21 Everybody may not think that that's a good idea. We
22 have, I think, today moving through our Administration
23 to the President a recommendation with respect to our
24 Administration's position on that piece. Understand
25 the significant progress that has taken place in terms

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 of -- I want to think it was 13 months ago we first
2 started to talk about some initiatives to provide some
3 price relief to the industry. I believe that that's
4 progress. But I'm also clear on the fact that we have
5 been fire fighting. Do you know what I'm trying to
6 express? Sort of taking our initiatives one at a time
7 and doing the best we can.

8 I know before the Coordinating Council
9 last night there was some discussion about what next
10 steps ought to be. Now I'm going to step in dangerous
11 territory again because when I was in Houston I made
12 another speech and I talked about a strategy for this
13 industry. I think the word "strategy" makes everyone
14 uncomfortable, but what I'd like us to think about as
15 a group, if at all possible, is if we could further
16 now the understanding which was clearly the
17 President's, and that is that this industry is a
18 strategic industry. Could we think about how to
19 further that understanding in the American public in
20 terms of the next steps or what some of us have been
21 referring to as the big study which begins now to once
22 again paint the picture and really takes advantage of
23 the work that's been done over the years and simply
24 applies the knowledge to the American public and talks
25 about benefits coming from this industry to the

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 American economy. That's the piece that I would like
2 to see done.

3 In addition, there's been some planning
4 done to get us back into the center of the Department
5 of Energy's mission to really focus on what R&D is
6 needed for the industry to further its opportunities
7 to produce power and to drive the U.S. economy.

8 Most importantly, as I am now
9 understanding, we need to consider also how we
10 communicate to each other about what's available
11 within that Department of Energy's empire that might
12 be useful to people who are practicing, who are
13 producing, who are exploring for working further
14 upstream. That's what I'd like us to focus on.

15 You have been very quiet. That always
16 bothers me. What I'd like to do, with Ray's
17 permission, is I'd like to shut up and I'd like to
18 take some real straight, from the heart or hip,
19 questions and answers.

20 But before doing that, I want to recognize
21 the new members who are here today and I'd like you to
22 raise your hands.

23 Okay. You are now a part of an august
24 group, pulled together by a President of the United
25 States some many years ago, and you've followed the

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 work of this industry for many agencies and many
2 iterations. This is a group that paves its own way.
3 Now that makes us all feel good. But more important,
4 this is a group that makes a contribution.

5 I want to thank those of you who have
6 newly joined because you've done it as an act of
7 faith. Those of you who have agreed to serve again,
8 I want to thank you even more because this is truly an
9 act of faith. And I also want to thank you for
10 opening up participation in this group because I think
11 it will make us all the more powerful. This is
12 especially true if we can embrace the concept of
13 sustainable development.

14 At a time when attack on this industry
15 comes from a perception that we are -- and I have to
16 think of myself as belonging in this group. I have
17 for most of my life -- energy inefficient and
18 polluting. We can change this perception as we move
19 forward and work on some of these issues that we are
20 committed to work on together.

21 Finally, before you start to talk to me,
22 I want to say to you that my commitment to this
23 industry is long-standing. Last night, I was reminded
24 by so many people in the room of the privilege I've
25 had to work with so many of you over the years and

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 perhaps more importantly, the privilege to be shaped
2 by so many of you who are not with us anymore. So,
3 this is serious business for me and you may and must
4 know that I am your advocate. I take on that
5 responsibility with a great sense of privilege and
6 challenge.

7 So, I'd like now to listen. Thank you.
8 Anybody want to talk?

9 Yes, sir?

10 SPEAKER: Madame Secretary, you mentioned
11 the theme for energy development. Do you find --
12 concepts developing that subject and particularly
13 contrast sustainable energy development to the way we
14 do things now. What's different about it from your
15 perception?

16 CO-CHAIRPERSON O'LEARY: What's different
17 about it in my perception, and the way we have tried
18 to attack it in the Department of Energy is to stop
19 the fight. The fight which is always presumed that
20 you can have one but not the other. That you can have
21 growth and good jobs and development, but if you do
22 that, then you must leave the environmental protection
23 piece behind.

24 The way we have expressed that in the
25 Department of Energy, to those of you who have noted,

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 is in the work we've done on the Global Climate Change
2 Initiative. For quite frankly, we decided early-on
3 looking at the economics of the piece, that there was
4 no point in trying to get a commanding control
5 authority, to try and abate greenhouse gas emissions
6 to the 1990 level within six years.

7 We decided the best way to do that was
8 through a voluntary effort which said, "let us respect
9 the industry and its clear sense that sometimes
10 abating pollution is a more cost-effective thing than
11 to let it continue." And let the industries and their
12 various groups plan how they want to meet that
13 challenge. That was a significant step away from the
14 perception of many who thought we must punish people
15 because somehow, they've done something wrong or evil.
16 More importantly, I think it recognized that the
17 economic drivers could be there if we let business
18 people make their own decisions while we set the
19 standards.

20 I think it's proven out to be a very good
21 investment and it made good common sense. In about
22 three months, we got more than 900 firms, individual
23 firms, to sign commitments to voluntarily reduce their
24 greenhouse emissions. And we did not ask them to meet
25 the President's goal, but we asked them to do the best

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 that they could because we recognized that everybody
2 wouldn't do it. I think that's an extraordinary way
3 to proceed, and more importantly, it was easy to get
4 the utility industry on board. I mean, this, as
5 opposed to, you know, step on that. I frankly believe
6 that that was the case because we had long-standing
7 relationships there. And to be quite frank, I also
8 believe that was the case because the states have a
9 little regulatory authority going.

10 But the other significant thing was to see
11 other industries sign on. The automotive industry,
12 UPS, sort of United Parcel Service's large
13 transportation sector, and one-by-one other industries
14 signing on. Pulp and paper, another large energy
15 user. Steel and aluminum, and even coal now are
16 putting forward their own plan. That, in my view, is
17 the way we need to proceed in the longer term.

18 Is that good enough?

19 SPEAKER: Yes.

20 CO-CHAIRPERSON O'LEARY: Okay. Thank you.

21 Anybody else? Any questions here, please?

22 Comments? I don't believe you guys are so quiet.

23 Yes?

24 SPEAKER: Madame Secretary, I have
25 produced -- in California. This is a very nice report

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 with a lot of work -- what is your opinion of the
2 success of having any of these things put into place
3 so that we can continue -- sustainable developments
4 you talk about? And what is the next step that you
5 will take with this report in getting it implemented?

6 CO-CHAIRPERSON O'LEARY: I'm so glad you
7 asked me that question because I was prepared to speak
8 on it.

9 I think that we owe this Council support
10 of, and communication of, and publication of the
11 results of these studies. It would be very valuable
12 to take into our Councils within the National Economic
13 Council and our Administration in our dealings with
14 the Treasury Department and the Congress. But too
15 often what we do is file the report. We all know
16 about it, and then we fail to take the next step which
17 is to publicize it and use it as a tool of advocacy.
18 That's the commitment I've made to you and that's the
19 way we'll use it. You'll see not just me doing it,
20 but Patricia and William and all the people in the
21 Department of Energy who carry this mandate.

22 The other thing you should know is we're
23 about to begin our public dialogue on a national
24 energy strategy. Most of you know that the Congress
25 requires that every two years, we do a National Energy

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 Plan. This will provide another platform as we go
2 throughout the country, engaging people in dialogue
3 and proposing what we believe ought to be some
4 Administration and national policy, federal policy, on
5 sustainable energy development, generally. We're
6 going to try out that theme.

7 In two locations, we will be holding
8 meetings that particularly focus on energy resources.
9 One is in Austin, Texas, and I don't think we've
10 settled yet the date for that.

11 And the next one, Reggie? We're doing two
12 of them. Okay, he knows. It's the 12th.

13 And then we're doing another one also in
14 Louisiana. And I want to tell you it's Shreveport and
15 I'm not clear on that date.

16 Anybody here clear on the Louisiana date?
17 It's New Orleans? Do you know the date?

18 So, that will be another opportunity to
19 platform this information and I'm glad that I have the
20 opportunity now to ask you all to consider
21 participation because what we need is strong voices
22 speaking out, so that we will be in concert, one with
23 another.

24 Yes, sir?

25 SPEAKER: Are you optimistic that most of

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 this or all of it will be adopted, put into effect?

2 CO-CHAIRPERSON O'LEARY: Are we being
3 covered by the press? Likely.

4 I have more optimism this season,
5 especially after the work done by Bob Ruben's folks in
6 the National Economic Council and at the formation of
7 this oil and gas caucus on the Hill. I think it will
8 be tough. All of this is very tough. Anything we're
9 lifting in the Congress is tough.

10 The things that we can do
11 administratively? You've read about Carol Browner's
12 no-nonsense policy, really taking a look at the
13 Yorktown and getting away from the cookie cutter
14 regulation of industries, generally is another step
15 forward. So, I am more optimistic this year than I
16 was 13 months ago. I think if we can leave this room
17 convinced that we really are partners in this effort--

18 SPEAKER: If it's tough, maybe you'll get
19 tough with it.

20 CO-CHAIRPERSON O'LEARY: Well, I'd like to
21 think that everybody knows I'm tough. But if you
22 think I am required to get tougher, I know how to do
23 that, too. Thank you.

24 We're serious about this. We understand
25 -- I want to talk for a minute about this. We just

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 came back from India where our assignment given to us
2 by the President was to focus on sustainable
3 development in India. And at my age, I had really
4 forgotten about the expansion that came to the United
5 States because of this industry. But there in India
6 in a village called Benares where there is no power
7 and people's lives are so stunted by the fact that
8 there's nothing to relieve this human production for
9 work. Suddenly, you become aware of this fantastic
10 tool. Everybody wants what we've got. And so, I'm
11 clear that we need to protect it in the United States.

12 So, yes, I'm on it and I'm very
13 optimistic. But I want you all to understand that
14 it's not Bill. It's me alone. It's not the President
15 alone. It's not the Congress standing alone. It's
16 all of us. That's my plea today for this partnership.

17 Yes, sir?

18 SPEAKER: Madame Secretary, I think your
19 use of graphics is very effective and I was wondering
20 if we, or the Departments, could have a kind of
21 graphic summary of this marginal role report to
22 support some of those thoughts and efforts.

23 CO-CHAIRPERSON O'LEARY: Yes, we'll take
24 that on, but we'll use some help and make it a
25 partnership as well. I like the Executive Summary but

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 we need to -- yes, I call it grandmother language.
2 How do I articulate it so my grandmother understands
3 it? Or maybe about once every other month, I'll talk
4 to a group of high school students and if we're
5 communicating to them, then I know we're communicating
6 well. So yes, we'll take on that assignment. Thank
7 you.

8 Anybody else? Yes?

9 SPEAKER: Madame Secretary, kind of a
10 follow-on to Bill Fisher's question but maybe you can
11 talk just a minute or two about how you're trying to
12 restructure the Department's R&D budget. And of
13 course, secondly and more importantly, how do you
14 think it will prevail on the Hill, particularly given
15 the Bobby Byrd types and some other people?

16 CO-CHAIRPERSON O'LEARY: Well -- god, I
17 know I'm going to get quoted and I'll be in trouble
18 again, in case you wonder how tough I am.

19 We have worked very hard to try and drive
20 our budget through the strategy, and thanks for teeing
21 that up for me. Because it has been our way to try to
22 rationally approach the public and the Congress about
23 what our needs are in terms of resource and more
24 importantly, how they're being spent.

25 It's a tough piece because -- I want to

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 say this well and I probably won't. The business of
2 the Department of Energy, unlike most agencies, cross-
3 cuts, I want to say 22, 23 subcommittees,
4 authorization and appropriation. So, everybody is in
5 our business. And because it's so unfocused,
6 represented by those mandates and the fact that the
7 Department was built from so many different agencies
8 -- I am in trouble -- everybody thinks a piece of that
9 budget belongs to them. And there are entitlements
10 there that are as old as maybe I am. And it's a very
11 tough piece to take the walk to a new vision when the
12 budget often reflects needs at home. And I am in
13 trouble. You mentioned the chairman, I didn't. I
14 don't want to mention that chairman, but I could
15 mention any others.

16 I'll give you examples. I end up with a
17 wing in a hospital and it's like "Dear Lord, I don't
18 thank you for these gifts I'm about to receive."
19 because someone on that committee has a hospital at
20 home that needs something and suddenly, I've got a
21 wing. When I first came to the job, I learned to ask
22 my people, "is this a real project or is this pork?"
23 And they would go "oink, oink" on the pork things.
24 Well, that's as old as politics. But with budgets so
25 tight, we can not afford the porkers that don't

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 support the mission. And I would have other examples,
2 but you get the picture. That means it's more
3 important that we have a coalition of people
4 supporting the initiatives.

5 Now, I want to leave a thought with you.
6 On our energy efficiency budget this year, much of
7 which will reflect the needs of this industry as we
8 work on more efficient production, we must have had
9 over 1,000 -- maybe 2,000, 3,000 letters coming into
10 the Department. Therefore, going to the Hill in
11 support of that budget. That doesn't happen with this
12 industry. So, it's very hard to walk the piece up
13 when you're looking around behind you and you don't
14 have that broad a constituency. So that's why I keep
15 saying, we need to work on the strategic that pulls
16 the public along with us.

17 Is that enough? Okay.

18 SPEAKER: You know, looking at the graph,
19 the problem is right there. Until you move energy
20 resources squarely in the middle, Washington will
21 never understand it. The city is going to use more
22 energy today for the air conditioning bill than the
23 entire nation of Bangladesh will use. We are totally
24 -- those other -- couldn't exist without it.

25 I don't think anyone is concerned as to

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 how that energy pool is made up. Our needs are high
2 enough. We're going to use it all. Renewable energy,
3 fine if somebody can figure it out. But until that
4 energy resource thing in the center of that, the
5 Department and its inter-relationship with the entire
6 government is not going to be understood. I know the
7 science and technology group, they're admirable but
8 hey, they couldn't exist without the Energy.

9 CO-CHAIRPERSON O'LEARY: And let me tell
10 you this with respect. There's a whole constituency
11 who says, "you've just got to put us in the center."
12 Here, here, and certainly, here today. With respect,
13 I think we need to drive the messages from each of
14 these pieces --

15 SPEAKER: But people won't understand
16 unless you put it in the center and the rest hang on
17 it. Now, I can see politically, environmental quality
18 put right square in the middle but it just isn't going
19 to work that way. Try turning the air conditioning
20 off in this town. It would be a very good example of
21 our energy dependency and give me ten minutes' notice
22 so I can leave.

23 CO-CHAIRPERSON O'LEARY: Get out of here.

24 Does anybody else have ideas about whether
25 the circle needs to be redone? Or would you like to

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 move on to another area?

2 SPEAKER: Do you want to take a vote?

3 CO-CHAIRPERSON O'LEARY: And then I'll go
4 next week to the National Security Advisory Committee
5 and see what they have to say. I think I get the
6 message.

7 Yes, ma'am?

8 SPEAKER: I guess I don't understand why
9 sustainable development, which is really a concept
10 that takes all the pieces including research and
11 technology, why that isn't in the center? Because
12 that is the life blood of the United States. It is
13 the fact that we've been able to progress. We're
14 exploring all kinds of different technologies --
15 quality outward, but as far as the recognition of
16 sustainable development versus -- control, you know,
17 I'm just totally committed.

18 CO-CHAIRPERSON O'LEARY: Good. Thank you.

19 We've had others suggest that the center
20 needs to be changed. I had a very bright and seasoned
21 person say, "call this knowledge and empowerment
22 because then it will drive everything." I get you,
23 sir.

24 Anyone else?

25 SPEAKER: Madame Secretary?

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

VIDEO; TRANSCRIPTIONS

1 CO-CHAIRPERSON O'LEARY: Yes, sir.

2 SPEAKER: There have recently been reports
3 about the rate of consumption of energy in relation to
4 the rate of increased production, giving kind of a new
5 slant to our industry in the pretty near future. From
6 your perspective -- and there has been some articles
7 on this, that maybe we may not be too far away to
8 where price is probably going to be the controlling
9 factor of use of energy.

10 Have you got any insight on that?

11 CO-CHAIRPERSON O'LEARY: If you're asking
12 me will demand sort of begin to outstrip supply, and
13 therefore, heat up price?

14 SPEAKER: Yes, ma'am.

15 CO-CHAIRPERSON O'LEARY: Yes. I mean, all
16 this work that we've been doing in Russia, in India,
17 about to do in China, really relates to that piece
18 because unless we can figure out how -- it's not only
19 the energy source, it's the capital source.

20 As an example, Asia sucks up a trillion
21 dollars in the next ten years chasing after their
22 energy development, then that's going to heat up the
23 capital market more than most of us can stand. That
24 will also heat up the price of energy which will be a
25 good piece as well.

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 But you're talking about supplies,
2 specifically?

3 SPEAKER: I'm saying the demand will
4 outweigh the ability to supply. Then in that case,
5 the price will be the controlling factor.

6 And with that in mind, as we study this
7 report, then we're talking about six or seven trillion
8 dollars' worth of well in these marginal wells, in
9 these reserves, in these old reservoirs. Does that
10 have any more significance to what we're doing here
11 today?

12 CO-CHAIRPERSON O'LEARY: Well, I certainly
13 think it's the most urgent piece for us in the United
14 States and ought to be advanced, which is why it has
15 been. But we've got to look back and get the rest of
16 the work done as well. And I understand your point.
17 Yes, it is the most critical piece we can advance this
18 year, in my mind.

19 Anyone else?

20 Yes, sir?

21 SPEAKER: Madame Secretary, I think that
22 there's some doubt and there's some concern among the
23 industry. And at the same time, I think this
24 Administration is urging us to change and is saying
25 things will change, nothing stays forever. I think

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 that's wise on your part. We may not agree with you
2 on all the specifics and I'm sure there are individual
3 different opinions. But I think it's very clear that
4 things are changing and that we need to have some
5 self-examination and examine our business strategies
6 and be susceptible to change.

7 I see these reports of overwhelming
8 demand, and yet I've seen them my entire career.
9 Science and technology has responded, he
10 innovationists of the American entrepreneur. I think
11 focusing on the change and giving us a forum in which
12 to discuss the change and how we can adapt to it and
13 keep competitiveness is extremely important. You all
14 are doing that better than any Administration I've
15 ever tried to work with. I appreciate that.

16 CO-CHAIRPERSON O'LEARY: Thank you.

17 Anybody on the other side want to be heard
18 from? Anyone else? It's been very quiet over here.

19 Then I guess we're finished. Thank you
20 very much. Thank you.

21 (Applause.)

22 CHAIRPERSON HUNT: Thank you very much,
23 Madame Secretary.

24 We now have several administrative
25 matters. The first is, I will present a short report

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 on some meetings of the Co-chairs' Coordinating
2 Committee.

3 For those of you who are new to the
4 Council, this was an administrative committee that was
5 established in 1992 to monitor the progress and
6 enhance the effectiveness of NPC activities. The
7 Committee has met twice since the last meeting of the
8 full Council, the first meeting occurring on December
9 9, 1993, and then the Committee met again yesterday
10 afternoon.

11 At the December meeting, we presented to
12 Secretary O'Leary, the interim report of the Oil
13 Pollution Act Study which had been approved by the
14 Council, by ballot, earlier that day. We also
15 discussed with the Secretary, the sections of the
16 Domestic Natural Gas and Oil Initiative concerning the
17 marginal well study and the study of government
18 industry roles.

19 At our meeting yesterday, we summarized
20 the draft findings of the studies dealing with the Oil
21 Pollution Act and marginal wells, both of which you
22 have subsequently approved today, and we discussed the
23 possibility of two new studies. You will hear more
24 about one of these studies when Frank McPherson
25 presents the report of the Agenda Committee next. The

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 Secretary alluded to the other study which some are
2 calling a larger study, which is not yet been
3 officially requested. She alluded to those in her
4 comments.

5 This report -- my report on the Co-chairs'
6 Coordinating Committee does not require a vote of the
7 Council membership, but I'd be happy to answer any
8 questions or hear any comments, should there be any.

9 Okay, hearing none, let's move then to the
10 report of the Agenda Committee. I'd like to ask Frank
11 McPherson, chairman of the Agenda Committee to come
12 forward at this time.

13 Frank?

14 MR. MCPHERSON: Thank you, Mr. Chairman.

15 Secretary O'Leary has requested the
16 Council's advice on our nation's research and
17 development needs as they relate to both the upstream
18 and downstream of oil and gas operations. A copy of
19 the Secretary's letter to Ray Hunt is in your packet
20 before you at your places. As required by the
21 Council's Articles of Organization, this request was
22 referred to your Agenda Committee.

23 The Committee believes that this is a
24 particularly timely request as both the industry and
25 government strive to reduce cost while maintaining a

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 viable oil and gas sector in the U.S. economy. The
2 Committee supports the concept of government-industry
3 research, partnerships, where such arrangements can
4 effectively expand our basic knowledge of oil and gas
5 reservoirs, environmental protection, and fuel
6 conversion. We do acknowledge the difficulties the
7 Council will face in determining the level and
8 character of ongoing research and in providing a
9 consensus view of future priorities.

10 I am pleased to report that it is the
11 unanimous recommendation of the Agenda Committee that
12 this request is proper and advisable, and that a
13 committee should be formed expeditiously to prepare a
14 report for the full Council's consideration.

15 Mr. Chairman, this concludes the report of
16 the Agenda Committee. On their behalf, I move that it
17 be adopted by the Council.

18 CHAIRPERSON HUNT: Thank you, Frank.

19 The report has been moved.

20 Is there a second?

21 Motion is seconded. Any discussion?

22 All in favor signify by saying aye?

23 Opposed?

24 Motion carries.

25 Thank you, Frank, and thanks to all the

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 people on your Committee.

2 Next is the report of the Finance
3 Committee. I'd like to ask John Hall, the Chairman of
4 that committee to come forward at this time.

5 John?

6 MR. HALL: Thank you very much, Ray.

7 And thank you, Madame Secretary, for being
8 here for the first time ever for the Secretary to hear
9 the Finance Committee report.

10 The Finance Committee met this morning to
11 review the financial status of the Council. We met
12 with representatives of Ernst and Young, our
13 independent outside auditors. Based on their audit,
14 I'm pleased to report to you that our accounting
15 procedures and controls received high marks and our
16 financial condition is strong.

17 We also reviewed our receipts and
18 expenditures for the first half of calendar year 1994,
19 and projections for the last half of the year. As a
20 result of this review, we're well within our projected
21 expenditures and we do not need to change our
22 approximate \$2.8 million budget that you approved last
23 year. Our receipts are running a little ahead of our
24 projections and we'll meet our goal of restoring our
25 contingency fund to a six month operating level. We

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 will not be, at this meeting, asking for any
2 additional contributions from the members. We'll stay
3 at the same level.

4 We also discussed a suggested contribution
5 for the 50 new members that have not had the
6 opportunity to contribute. Since we do not have data
7 for most of you, we will be sending you a work sheet
8 which will allow you to figure your suggested
9 contribution for 1994. Since you were only appointed
10 in April and are just now beginning to participate, we
11 recommend that you contribute only one-half of the
12 normal suggested amount for 1994.

13 Finally, as I mentioned in my last report,
14 the data on which individual members' suggested
15 contributions are calculated is based on 1987 to 1988
16 sales and production numbers. We all recognize the
17 many changes in our industry over the last several
18 years, and the Committee recommends collecting 1992-
19 1993 data to be used for calculating your '95
20 suggested contributions.

21 Thank you, Mr. Chairman. That completes
22 my report and I move it be adopted by the Council.

23 CHAIRPERSON HUNT: Thank you, John.

24 A motion has been made and seconded. Any
25 discussion?

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 All in favor, signify by saying aye?

2 Opposed?

3 Motion carries.

4 I need to also point out that in spite of
5 the fact that the finances of the NPC are quite
6 healthy, there is no truth to the rumor that we are
7 about to go public.

8 Next, we have the report of the Nominating
9 Committee, Collis Chandler.

10 Collis?

11 MR. CHANDLER: Thank you, Ray.

12 The National Petroleum Council's
13 Nominating Committee met yesterday to agree on its
14 recommendations for NPC officers and chairmen and
15 members of the Agenda, the Appointment Committee, as
16 well as the five at-large members of the NPC Cochairs'
17 Coordinating Committee.

18 On behalf of the Committee, I am pleased
19 to offer the following nominations:

20 For NPC Chairman, Larry Fuller. For NPC
21 Vice Chairman, Dennis Hendrix.

22 For the Agenda Committee, we recommend the
23 following as members:

24 Bob Allison, Vic Behini, Phil Carroll,
25 myself, Ken Derr, Dick Farman, Frank McPherson, John

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 Miller, Jack Murphy, and Lee Thomas, with Joe Foster
2 serving as Chairman.

3 For the Appointment Committee, we
4 recommend the following as members:

5 Bob Campbell, John Croom, Tom Cruikshank,
6 Al DeCrane, David Dorn, A.V. Jones, Dino Nicandros,
7 Bobby Parker, Lee Raymond, and Irene Wischer, with
8 Leighton Steward serving as Chairman.

9 In addition, we recommend the following as
10 the "at-large" members of the Cochairs' Coordinating
11 Committee:

12 Truman Arnold, David Biegler, Fred
13 Hamilton, Frank Heintz, and Bobby Parker.

14 Mr. Chairman, this completes the report of
15 the Nominating Committee and, on their behalf, I move
16 that the above slates be elected until the next
17 organizational meeting of the Council. Thank you.

18 CHAIRPERSON HUNT: Thank you, Collis.

19 The report of the Nominating Committee has
20 been moved.

21 Is there a second? Second.

22 Any discussion?

23 All in favor, signify by saying aye?

24 Opposed?

25 Motion carries.

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 Now that I have been fired, I would like
2 to make just a couple of very, very brief comments.

3 First, it has been a very sincere
4 privilege and honor to have served in this capacity
5 for the last couple of years. A great many of you in
6 this room have worked on committees or in different
7 capacities as we have continued to modify the NPC to
8 adjust to the circumstances existing in the
9 environment in which we all live, and in which the
10 government operates. I feel that the NPC has
11 continued to remain a very effective tool for the
12 Department of Energy to utilize.

13 I want to comment about the staff of the
14 NPC. Each of us in this room has had the opportunity
15 to deal with not-for-profit organizations, whether
16 it's a school, a church, a hospital, a chamber of
17 commerce, some public interest group, whatever it is.
18 And we've all been exposed to different staffs. I
19 have never been exposed to a staff that is any better
20 than the staff we have at the NPC.

21 Marshall Nicholls has been with the NPC
22 for 23 years. Several other members of the staff have
23 similar tenures. They do an outstanding job. And as
24 the Secretary alluded, this is one of the very few
25 advisory organizations where the members pay the

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 expense of the organization. Folks, we really get our
2 money's worth with respect to the staff, whose
3 salaries we pay.

4 (Applause.)

5 CHAIRPERSON HUNT: Secondly, there is one
6 person I want to really thank for a lot of counsel and
7 guidance that he provided me during the last couple of
8 years, and that's Collis Chandler. Collis was
9 chairman of the NPC from 1976 to 1978. That was the
10 time period when the DOE was created and the NPC moved
11 from the Department of Interior to the Department of
12 Energy. His counsel and sage advice has been
13 invaluable over these last several years.

14 Thank you very much, Collis.

15 With that, now we'll move to the last item
16 on the agenda, and that is, regretfully, a memorial
17 tribute to Dave True who had been a member of the
18 National Petroleum Council for over 30 years. I would
19 like to ask Bob Anderson to come forward and present
20 a memorial resolution in Dave's honor.

21 Bob?

22 MR. ANDERSON: I have here a Memorial
23 Resolution to H.A. True, Jr., dated July 27, 1994.

24 The members of the National Petroleum
25 Council were deeply saddened by the death of their

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 distinguished colleague, H.A. "Dave" True, Jr., on
2 June 4, 1994.

3 Dave was born in Cheyenne, Wyoming, and
4 graduated from Montana State College. He worked as a
5 roustabout pumper, and as a foreman and superintendent
6 of drilling and production in Wyoming for The Texas
7 Company. Dave later joined Reserve Drilling Company,
8 Inc., eventually serving as its President.

9 A born entrepreneur, Dave diversified his
10 holdings into trucking, agriculture and banking. In
11 addition to serving as partner in the True Oil Company
12 and True Drilling Company, the Eighty-Eight Oil
13 Company, the True Geothermal Energy Company, True
14 Ranches, and Belle Fourche Pipeline Company. He was
15 also Vice President of the White Stallion Ranch, Inc.,
16 a director of Midland Financial Corporation, and
17 president of the Toolpushers Supply Company, as well
18 as Black Hills Trucking.

19 Dave True was a well respected spokesman
20 for the oil industry. As a member of the National
21 Petroleum Council, his advice was sought by successive
22 Secretaries of the Interior and Energy for over 30
23 years. He was elected NPC Chairman in the early 1970s
24 and served on more than 20 study committees. Dave
25 served as president of the Independent Petroleum

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 Association of America, as a director of the American
2 Petroleum Institute. In addition, Dave was an active
3 member of many other national and regional industry
4 organizations.

5 Therefore, with sincere admiration for his
6 achievements and contributions to the industry and the
7 Council, and with a sense of great loss, be it
8 resolved on this 27th day of July 1994, that the
9 deepest sympathy of the members of the National
10 Petroleum Council be extended to Dave True's widow,
11 Jean, as well as his family.

12 It is further resolved that this
13 resolution be entered upon the permanent records of
14 the Council, and that an appropriate copy thereof be
15 delivered to his family as a remembrance of the
16 Council's esteem and deep appreciation.

17 We have lost a friend.

18 Mr. Chairman, may we have a moment of
19 silence?

20 Thank you.

21 CHAIRPERSON HUNT: Thank you very much,

22 Bob.

23 I will presume that that motion has been
24 approved.

25 We now have the last item on the agenda,

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 and that is the discussion of any other matters that
2 may come before this meeting. I'd like to throw the
3 floor open to any members of the NPC.

4 Madame Secretary?

5 CO-CHAIRPERSON O'LEARY: I'd like to close
6 a loop if it makes sense. There's been lots of
7 discussion about the big study. I'm not certain that
8 we're clear about what the elements of the big study
9 should be. There are lots of ideas abounding.

10 With your permission, I would like to
11 suggest that we put staff of the Department as well as
12 staff of the Council together to try and outline a
13 scope of work, and then float a draft to all of the
14 members so that we might take appropriate next steps.

15 Does that make sense?

16 CHAIRPERSON HUNT: Yes.

17 CO-CHAIRPERSON O'LEARY: Fine, thank you.

18 CHAIRPERSON HUNT: Thank you, Madame
19 Secretary.

20 Any other comments or questions?

21 Bill?

22 DEPUTY SECRETARY WHITE: Ray, I just
23 thought I'd make one comment on behalf of the
24 Secretary, and particularly, to the new members.

25 This group performs a critical function in

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 what we're trying to accomplish on some specific
2 things in energy policy. Trade associations and
3 lawyers and the like perform a very useful role in
4 this town. But I'll tell you what, to have an
5 authoritative group that can provide factual
6 information concerning some of these critical issues,
7 such as OPA '90, marginal wells, gas supply, the cost
8 or refinery regulation, pulling no punches, is
9 critical when we try to influence policy on each of
10 those issues.

11 I know that you're coming here, the new
12 members, voluntarily. There's a financial
13 contribution. But I don't think that we could do as
14 good a job unless we had the information provided by
15 the studies in this group. If you look at the
16 specific things we're doing with each of these
17 studies, they are not just sitting on the shelf.
18 That's true with OPA '90, and it is true with the
19 marginal well study. The preliminary results of that
20 study were communicated to the President, which is one
21 reason he made the statement that he did about
22 marginal wells to the group of Senators six weeks ago.
23 And why he instructed us in the Administration to come
24 up with a plan on marginal wells that did not
25 exacerbate the deficit.

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

1 So, I just wanted to say for the newcomers
2 to this meeting, how valuable their participation and
3 input to the Secretary and I was, Ray.

4 Thanks.

5 CHAIRPERSON HUNT: Thank you very much,

6 Bill.

7 Are there any other comments?

8 Okay, before we adjourn, I would like to
9 remind the members of the media that there will be a
10 press conference which will start up in about ten
11 minutes after we adjourn here. Could you please move
12 to the front? The people who have been involved in
13 the two studies that have been approved will be
14 available for questions at that time.

15 Again, it has been a real pleasure for me
16 to serve in this capacity. The NPC is truly blessed
17 to have Larry Fuller as its new Chairman. You all
18 will be kept very, very busy the next two years, I
19 know.

20 With that, the meeting is adjourned.

21 Thank you.

22 (Whereupon, the meeting was concluded at

23 10:00 a.m.)
24
25

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008

VIDEO; TRANSCRIPTIONS

CERTIFICATE

This is to certify that the foregoing transcript in the matter of
Meeting,
Before National Petroleum Council,
Held on July 27, 1994,
In the location of Washington, DC,
represents the full and complete proceedings of the aforementioned
matter, as reported and reduced to typewriting.

A handwritten signature in cursive script, appearing to read "Michael Strain", is written over a horizontal line.

SAG, CORP

4218 LENORE LANE, N.W.
WASHINGTON, D.C. 20008